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Executive Vice President

MEMORANDUM

TO: Special Commission on Auto Body Labor Rates
Brendan Crighton, Senate Chair
Rep. James Murphy, House Chair

FR: Robert O’Koniewski, Esq.

DT: January 25, 2022

RE: **MSADA Testimony in Support of Reforming Auto Body Labor Rates Paid by Insurance Companies to Auto Repairers in the Commonwealth**

The Massachusetts State Automobile Dealers Association respectfully requests your support for statutorily creating and implementing a process to reform the setting of labor rates paid by insurance companies to auto repairers in the Commonwealth.

At a minimum, the driving force for such reforms should be twofold: (1) to improve the consumer’s experience for obtaining a needed vehicle body repair in terms of cost, time waiting to get a scheduled repair, and the time spent waiting for the repairs to be made and (2) to ensure the auto body repair industry can remain commercially viable through the availability of a reliable supply of skilled labor and an adequate revenue stream to enable them to meet the cost of labor and equipment that is required to provide a professional service to the consumer demanded by item (1). Without these needed reforms, the body shop industry will continue to wilt on the vine as it continues to experience the ongoing degradation of their business while the number of qualified technicians with the skill and experience to service the auto insurance consumer slowly disappears.

MSADA represents the economic interests of the 427 franchised new-car and truck dealers in Massachusetts, who employ over 25,000 men and women across the state and who account for almost 20% of the state’s retail economy. When we first testified on legislation to address this problem before the Legislature’s Joint Committee on Insurance in May 2001, we had in our ranks dealers that owned and operated well over 100 body shops. Twenty years later, that number has been reduced by half.

Legislative efforts to address the problems faced by repairers and insurance companies regarding repair costs and reimbursed labor costs paid out to repair shops led to the creation of the Special Commission on Auto Body Labor Rates in mid-2008. Cost containment efforts pushed by state regulators and the insurance companies collided with the economics of the repair industry, and the losers were consumers and the repairers.

By the time of the 2008 commission hearings, a considerable segment of the auto repair industry struggled to survive, especially as the reimbursed labor rate remained stuck in the low \$30s per hour over the previous decade, settling in at one of the lowest in the country. Quoting from the Commission’s 2008 final report: Auto body shop representatives “commented that labor rates stagnated and have not kept pace with increased costs of doing business, such as employee wages, health insurance costs, machinery

upgrades and property costs...[T]he stagnation in wages is leading to a drastic reduction in the number of young technicians entering the field and leading to an aging, less productive workforce...Additionally, the low wages in the industry cause many of the best, most talented technicians to leave the business.”

Since the issuance of that report, the same themes have been articulated at every legislative public hearing on reform legislation over the last 12 years. Continuing from 2008, the lack of statutory and regulatory reforms has created a loss of repair shops, longer wait times for car owners to have repair shops take in their vehicles for repairs, and longer repair times themselves. All this as Massachusetts now has the lowest reimbursement rate for insurance-paid auto body/collision repair in the nation, having dropped below Mississippi. The national labor rate reimbursement average is almost \$15 per hour more than in Massachusetts. In Massachusetts, the current average of the reimbursable hourly labor rate trails considerably all other New England states. Our rate here is unilaterally set by each individual insurance company. As a result, the rate has seen minimal increase over the last 20 years.

Small businesses that do this work are struggling to stay in business. Many can neither make ends meet nor recruit and retain qualified workers. Consumers needing vehicle repairs suffer as there are fewer options to take their vehicle. Something needs to change so that the auto body repair businesses are reimbursed by the auto insurance companies at a rate that reflects the true economics of the industry in Massachusetts.

The themes articulated by repairers encapsulated in the 2008 report resonate louder today. A repressed labor rate is fundamentally anti-consumer and hinders the economic viability of the repair industry. As 2022 unfolds, repair shop owners and technicians will testify once again that an artificially set rate adversely impacts the vitality of repair businesses by shortchanging repairers’ reimbursements as all operational overhead costs (utilities, employee costs, insurance, tools and equipment, etc.) continue to climb unabated. It is even more relevant today as our country is experiencing a growth in inflation that has not been seen in over 40 years. These ever-increasing costs simply cannot be ignored by the insurance companies and state regulators.

As businesses struggle to bring in proper amounts of revenue, these businesses close, leaving fewer repair site options offering quality service for vehicle owners. Further, without the proper flow of revenues into these businesses, young techs see little incentive to remain in a profession that cannot generate an adequate flow of revenues due to the insurance industry’s suppressing the reimbursement rate. Every technician who ages out and retires, if not replaced by a younger technician, leaves our industry that much weaker.

I do not possess a crystal ball, but we do know that the past is a prelude to our future. Many of our member auto dealers who participated in the 2008 process have closed up their repair shops because the business was no longer viable, including our own John Santilli, who served as the MSADA representative on the 2008 special commission. If the Commonwealth does nothing for the next decade to address the problems in this industry I can predict one thing – we will have fewer repair shops to serve the car owning consumer, but the auto insurance companies will still be around enjoying their financial largesse.

As we continue with the special commission and legislative processes, we look forward to working with all interested parties to create a solution to this ongoing crisis. In the end, we are confident that a solution which includes an increased labor rate would go a long way to preserving consumer choice and encouraging young techs to enter the work force, optimistic that their efforts will not be punished by an artificially capped reimbursement rate.

We urge your support for reforming the current situation. Should you require any additional information, please do not hesitate to contact me.